

VERMONT STATE TEACHERS' RETIREMENT SYSTEM
Meeting of the Board of Trustees – In-House Actuary Meeting
July 27, 2015 – 8:30 a.m.

Members present:

JON HARRIS, Chairperson (Active No. 25669), term expiring– July 1, 2019
JUSTIN NORRIS, Active Member Representative, term expiring July 1, 2017
VAUGHN ALTEMUS, representing Secretary of Agency of Education
LINDA DELIDUKA, VRTA Alternate representative, term expiring July 1, 2016
DANIEL RADDOCK – Financial Regulation Representative
ELIZABETH PEARCE, VT State Treasurer

Members absent:

JOSEPH MACKEY, Vice-Chairperson, VRTA representative, term expiring July 1, 2016
Active Member Alternate Representative – vacant

Also attending:

Laurie Lanphear, Director of Retirement Operations
Joshua McCormick, assistant to Kathie Kretzer
Matt Considine, Director of Investments
Nick Foss, Investment Analyst
David Driscoll, Buck Consultants
Kai Peterson, Buck Consultants

The Chairperson, Jon Harris, called the Monday, July 27th, 2015, meeting to order at 8:12 a.m., which was held in the Large Treasurer's Conference Room, fourth floor, 109 State Street, Montpelier, VT.

ITEM 1: Approve the Minutes of:

- **June 11, 2015**

On motion by Mr. Altemus, seconded by Mr. Norris, the Board voted unanimously to approve the minutes of June 11, 2015, as submitted.

The board welcomed Daniel Raddock. Daniel will be the new Financial Regulation Representative for the VSTRS board of trustees.

ITEM 2: Review and discuss results of Draft Experience Study

Mr. Driscoll presented to the board the results of the Draft Experience Study for the State Teachers Retirement System. This report covers the period of July 1, 2010 through June 30, 2014. Mr. Driscoll gave an overview of what an experience study is, and two parts it is broken down into, demographic and economic assumptions. These assumptions are suggested by the results of the time period studied. Categories that were studied included but not limited to Active terminations, mortality, and interest rate of return.

Mr. Harris expressed concern that the board received the draft late and did not have sufficient time to review.

Terminations – Mr. Driscoll directed the board to the appendix of the report where a graph was made showing terminations broken down by age group and genders. Terminations are defined as an employee who leaves the system but is not able to collect a pension. Buck Consultants are recommending a series of adjustments to the termination probabilities now in use. In particular, they propose raising the assumed probabilities of termination among male teachers at ages 25 through 39 and among female teachers at ages below 25 and over 39.

Disability Retirement – Mr. Driscoll stated that the assumed disability probabilities produced expected disabilities that exceeded the actual number for participants except ages 50-54. Buck Consultants are recommending reducing the assumed disability rates by 50%.

Active Deaths – Mr. Driscoll stated that active deaths, like disability, are a small portion of the overall population. Buck Consultants are recommending using a RP-2000 table, scale BB, to assume active deaths. There was significant discussion and no conclusion on this item.

Early Retirement – Mr. Driscoll is proposing modest calibrations to the way Early Retirement is assumed. Buck Consultants is proposing to lower the assumed probability of early retirement to 70% of its current value at age 55 and to increase the probabilities by 50% at ages 59-61.

Service Retirement – Mr. Driscoll is proposing calibrations to service retirement as well. The proposal is to have the expected rates of retirement be increased by 50% at age 61 and 10% for ages 63 and up.

A discussion was had about the number of teachers that retired this year. It was also stated that there has been a steady decline of active teachers.

Post-Retirement Mortality – Mr. Driscoll stated that mortality over the past four years has conformed well to the current assumption. Buck Consultants is recommending that assumed mortality be set at probabilities in the RP-2000, scale BB mortality table. The board discussed industry trends in mortality. This issue needs more review.

Inactive Status – there is no change recommended to this category. Liabilities for members in inactive status have been maintained at 350% of their accumulated contributions with interest.

Mr. Driscoll then spoke to the board about the economic assumptions. He stated that there are three categories, Salary increase, inflation, and Rate of Return. He stated there is no assumption for overtime wages. He also stated that VSTRS has assumed long term inflation at 3% and recent year's data has been below that. However, Buck Consultants is recommending that the inflation assumption remains at 3%. It is also recommended that the assumed rate of return projected long-term over 30 years, be at 7.95%

Mr. Driscoll then turned the presentation over to Mr. Peterson to discuss the economic assumptions. Mr. Peterson talked to the board about the GEMS model that is used and how it works. He spoke about the target asset allocation and capital market assumptions. He also spoke to the board about going from the former method of interest rate assumption, the select and ultimate method, to the now proposed Assumed Rate of Return method.

On motion by Ms. Pearce, seconded by Mr. Altemus, the board voted unanimously to adopt the recommended assumed rate of return from Buck Consultants, at 7.95%.

The board decided to defer the adoption of the entire experience study due to needing more information. Ms. Pearce had concerns over some of the demographic assumptions, particularly mortality. The board also had concerns that they did not have sufficient time to review and requested additional time for review of the demographic assumptions. Ms. Pearce also stated that she went over the capital model with the NEPC and they are comfortable with the long term projections.

ITEM 3: Discuss/Act on Disability Retirement recommendation for:

▪ Edwin Webbley

On motion by Mr. Norris, seconded by Ms. Deliduka, the Board unanimously voted to accept the recommendation of the Medical Review Board for the disability retirement for Edwin Webbley, with a one year further review.

ITEM 4: Any other business to come before the board

Ms. Pearce gave an update about GASB 67/68. She stated that the KPMG auditors are working out the interest rate of assumption issues.

ITEM 5: Adjournment

On motion by Mr. Altemus, seconded by Mr. Norris, the Board unanimously voted by roll call to adjourn at 10:05 a.m.

Next Meeting Date:

The next scheduled VSTRS meeting is an In-House meeting, August 11th, at 9:00 a.m.

Respectfully submitted,

Kathie Kretzer
Secretary to the Board